

**Status Report on Finance Study for Meeting
Mental Health, Developmental Disabilities and
Substance Abuse Needs: System Financing
Cost Model Development**

**Presented To: Joint Legislative Oversight
Committee on Mental Health,
Developmental Disabilities and Substance
Abuse Services**

November 13, 2006

Authorization/Direction for Finance Study

- **Session Law 2004-124, House Bill 1414, Section 10.22A, “DHHS Policies and Procedures in Delivering Community Mental Health, Developmental Disabilities and Substance Abuse Services”.**
- **Session Law 2004-161, Senate Bill 1152, Part XVIII, “Study Financing of Mental Health, Developmental Disabilities and Substance Abuse System”, Section 18.1.**

Focus of Finance Cost Model

- **Develop a basis for the equitable distribution of service resources among Local Management Entities (LME) to help ensure uniform access to MH, DD and SA services for citizens across the State.**
- **An adjustable model with the utility of:**
 - **Adding or deleting variables for funding consideration.**
 - **Ability to look at finance data at both the county and LME level.**
 - **Ability to change the mix of counties and LMEs as mergers occur.**

Two Key Model Elements

- The finance model will **NOT** estimate the total cost of providing services. Estimating the cost of services is a function of the cost model developed in the separate Long Range Plan Gap Analysis project. The Gap model will estimate the total cost of services.
- The finance model **WILL** provide an objective basis for estimating how the cost of services, identified in the Gap model, could be financed through the major funding streams which support community-based services: Medicaid, State Appropriation and County General Funds.

Overview of Community-Based MH, DD, SA Funding

- **Total community-based MH, DD and SA public system funding in SFY 06 was approximately \$1,742,881,460 (\$1.7b).**
- **The \$1.7b is comprised of:**
 - **\$434.3m in Division State and Federal (primarily block grants) funds (24.9% of total community funding)**
 - **\$1.14b in Medicaid funds which includes regular fee-for-service, CAP-MR/DD, community ICF-MR (65.6% of total community funding)**
 - **\$109.3m in County General funds (6.3% of total community funding)**
 - **\$56.2m in Other LME funds such as insurance, fees, Medicare (3.2% of to community funding).**

Potential Funding Sources Within the Finance Model

- **Medicaid**
- **Division State appropriation and Federal funds such as block grants**
- **County General Funds**
- **Other LME funds (insurance, fees, etc.) were excluded due to variability and uniqueness at the local level (only 3.2% of total community-based funding)**

How The Model Will Work - High Level View

- **Long range plan Gap model will be used to determine projected total service cost based on variables within that model.**
- **Cost from Gap model will be fed into the Finance model.**
- **Finance model will be used to estimate the type funds (Medicaid, State and County General) which would be needed to finance the cost.**

How The Model Will Work - High Level View (Continued)

- **Finance model will have variables which can be modified to address factors such as:**
 - **Current number of individuals eligible for Medicaid that are being served and what funding changes would occur if the percent served was increased.**
 - **Population changes.**
 - **Overall penetration rates, i.e., increasing the number of persons served.**
 - **Mix of individuals served by age and disability.**
 - **Ability to phase in funding changes over a period of time.**

Hierarchy of Funding Considerations

- **Potential Medicaid funding will be considered the primary funding source; of the total cost needed, how much can be covered via Medicaid.**
- **Second funding source for consideration will be County General Funds – based on a projected ability to pay (additional County General funds discussion on another slide)**
- **Final source and safety net will be Division funds – State appropriation and Federal grant funds, i.e., after taking into account Medicaid earnings and county general funds, how should Division resources be allocated to reflect an equitable distribution of total service resources across the State.**

County General Funds Considerations

- **Integration of County General funds into the Finance model is not intended to, nor could it, create a minimum required funding level for counties.**
- **County General funding is proposed for consideration based on a county's ability to pay.**
- **Determination of a county's ability to pay is still in draft and review and input will be secured from counties as soon as the Finance model is in its "final draft" form. Rather than discussing county funding conceptually, the Division and contractor wish to have a working draft model for "hands on" review.**

County General Funds Considerations - Continued

- **While not a primary source of overall MH, DD and SA system funding, county general funds do represent 6.3% of total community-based funding.**
- **Considering county general funds from an ability to pay standpoint will help direct Division State appropriation and Federal block grant funds to LMEs on a need basis to ensure the equitable distribution of total MH, DD and SA system resources.**
- **The Finance model construct will readily allow for the exclusion of county general funds from consideration in the overall system financing strategy.**

Next Steps

- **Consultants will present the Finance cost model at the December 2006 LOC meeting.**
- **Division and consultants will work with the N.C. Association of County Commissions and the N.C. Council of Community Programs to secure input and recommendations related to the finance model.**
- **Upon adoption of a final finance model, the model can be utilized for funding and finance considerations during the upcoming Legislative Session and for actual allocation changes beginning July 1, 2007.**